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RAILROAD CO-ORDINATION

A PLAN TO STRENGTHEN RAILROAD CREDIT THROUGH SYSTEMATIC CORRELATION OF THE RAILWAYS UNDER GOVERNMENT SUPERVISION

I.

The problem of marking out a constructive national railroad policy centers in the question of maintaining railroad credit. The inadequacy of transportation facilities is clearly due to the lack of capital funds for investment in new terminals, new lines, and new equipment. Plans for dealing with the railroad question must therefore take into account, first of all, the inability of present railroad net earnings to attract the capital required for maintaining efficient transportation.

Three principal methods have been proposed for re-establishing railroad credit upon a satisfactory basis: first, a general advance in rates; second, a system of government guaranty of earnings; and third, government ownership. Supplementary measures have likewise been suggested, such as the elimination of control by state commissions over railroad rates, administrative changes in the machinery of federal regulation, government supervision of the issue of railroad stocks and bonds, involving federal incorporation, and the legalizing of inter-railroad traffic agreements.

This present attempt to construct a comprehensive plan for the reorganization of the railroads in their relations to the public and to each other is based upon the opinion that methods already proposed are either inadequate or inadvisable. A statement, therefore, of the view taken concerning these methods should serve to make clear the premises upon which the plan for systematic correlation has been worked out.

Under the present system of regulation political obstacles will probably not permit in the future such a general increase of railroad rates as will be sufficient in itself to maintain railroad credit. This would seem especially to be true for the reason that a con-

siderable advance in the level of rates will be required to offset wage increases. Furthermore, unless some constructive policy is established, rate advances would be based solely upon the principle of opportunism. It is not enough that advances should be secured after long delay has resulted in a condition of restricted railroad credit so severe as to have effected far-reaching injury to the transportation system. Nor, on the other hand, is it to be regarded as advisable to return to a high rate level merely on the basis of pressure from the roads. The Interstate Commerce Commission is too heavily burdened with the adjustment of rate and traffic controversies to have the additional task of dealing with general financial conditions. These should be intrusted to another responsible group of public agents, whose findings of fact shall be accepted by the Interstate Commerce Commission as the basis for general rate changes.

Concerning government guaranty of earnings, the view is held that, before such a system is tried, very much ought to be done to strengthen railroad credit, independently of financial assistance from the government. If the government should be called upon to give financial aid, under its guaranty it would acquire liens upon the railroad property, which, long continued, would lead to government ownership. Thus the roads could not avail themselves of the guaranty and retain their financial independence. Moreover, if the purpose of the guaranty system were to compel the government to bring special pressure upon the Interstate Commerce Commission for rate advances whenever decreased railroad earnings made necessary a call upon the government under its agreement, deficit financing would be established as the basis of railroad credit. No vigorous or progressive organization could be built upon such a foundation. The fluctuations in the financial needs of the roads and in the market rate of interest upon new capital flotations would not be recognized in establishing a fixed rate of guaranteed return. So long as earnings were in excess of this minimum guaranteed rate, it would be practically impossible to secure any rate advances, however justifiable.

As for government ownership, no discussion is here attempted. The plan presented is based upon the supposition that government

ownership is inadvisable, particularly because of the likelihood of confusion between government and railroad finance and the administrative dangers that would be involved in having the railroads run by government employees.

The proposed plan of railroad co-operation contemplates the abandonment of the application of the Sherman law to railroads. It could be established, therefore, only through comprehensive legislation, such as is here outlined, superseding the existing anti-trust laws.

II. MAIN FEATURES OF PROPOSED PLAN FOR RAILROAD CO-ORDINATION

The necessity for common action in the various branches of railroad direction and operation has led to the establishment of a large number of committees and associations for unifying matters of policy and for solving questions that affect all the roads. These committees are advisory in character, but their work is of material interest to the public from the standpoint of the efficiency of the transportation system. Such bodies are: the Railway Executives' Advisory Committee, the Association of American Railway Accountants, the Car Service Commission of the American Railway Association, the American Railway Engineering Association, and similar societies and committees, temporary and permanent, covering every phase of railroad operation, including law, traffic, finance, engineering, and accounting. Would it not be advisable, in order to correlate the work of all these organizations, to bring them into legal and governmental recognition, and to give them carefully defined powers of executive action?

By way of example, those who are responsible for the financial success of the railroads condemn the unsound financial practices of certain roads. The effect of these practices upon the minds of the investing public they recognize as hurtful to the marketing of railroad securities; yet they are powerless to prevent the continuance of them. Would it not be wise to give this advisory committee of railway executives, or some similar body, power to control the rules of finance for the transportation system of the country under the proper supervision of a governmental board?

The problem of utilizing railway equipment most effectively, upon which the Car Service Commission is engaged, has likewise been rendered exceedingly difficult of solution because that commission does not have the power to enforce its findings. In the whole field of transportation there are similar features which could be advantageously brought under central control without incurring the dangers of centralized management for all matters.

To effect railroad co-ordination of this character the following measures are proposed:

1. Compulsory federal incorporation of all interstate railroads.
2. Establishment of a general railroad organization embracing the agencies of central control and furnished with corporate powers for issuing securities, holding property, etc.
3. Creation of an executive board composed of railroad men to direct the central organization.
4. Appointment of a finance committee to manage central financing and to supervise the finances of the railroads of the country.
5. Division of the central organization into departments for carrying on the various branches of work, these departments to engage men of the highest ability and to be under the direction of the executive board.
6. Establishment of a federal railway board—a governmental body other than the Interstate Commerce Commission to which the executive board of railroad men and the finance committee shall be responsible and through which the government shall bear its share of responsibility for developing and maintaining efficient transportation.
7. Transference of the rate-regulating powers of the states to federal regional commissions, appeals to be made to the Interstate Commerce Commission on bills of exceptions.
8. Development of financial machinery to secure new capital on the basis of the increase in railroad credit resulting from the co-ordination of the railroads and the co-operation of the government in the work of maintaining railroad financial strength.¹

¹The first six of these points are taken up in detail in section III and the eighth in sections IV and V. The changes suggested under the seventh point have been fully discussed in the press, before the Joint Congressional Committee on Interstate Commerce, and elsewhere, and do not require additional treatment here.

Railroad co-ordination on this plan would not involve an overturning of the present transportation organization, but would supplement it by an authorized general organization governing general policies. It is a system which would in the least degree change the present one, being in large part a recognition of existing agencies of centralization.

The danger of developing too centralized a system of governmental supervision would be avoided by the creation of the federal regional commissions. Local considerations and interests would thus be given due weight, but the conflicts and discriminations arising under the present dual system of federal and state control would be eliminated.

The danger, involved in centralized private control, of creating a colossal, irresponsible, railroad trust would be obviated by placing upon the agents of such private ownership definite and substantial responsibility of a public nature. The development of too huge and unwieldy an industrial machine would be prevented by the retention of the present operating units.

The underlying principle, then, of the plan proposed for securing effective railroad correlation is to increase the centralization of both government and private control, leaving to each its proper work: to the government, general supervision; to the agencies of private control, actual management and operation. Responsibility for the maintenance of railroad credit would be added to the government's power over railroad earnings; and private power over railroad finances would be made definitely responsible to the government and to the public for upholding honest administration, sound finance, and efficient operation. Government supervision and private management would be brought into co-operation and would bear common responsibilities, though each would be restricted to its own true function. This constitutes true railway nationalization.

III. ORGANIZATION

The consolidated powers for general administration once determined upon, whether broad or narrow in scope, should be intrusted to a definite and responsible organization. The chief features of

a practical form for such an organization are here presented to suggest how the proposed plan could be put into operation. It goes without saying that the details given are merely tentative and would doubtless have to be greatly modified in the practical working out of the system.

1. The first requirement, as indicated on p. 545, is that there should be compulsory federal incorporation for all interstate railroads. This is a necessary preliminary, not only for creating the central organization, but also for simplifying the federal regulation of rates and securities. Provision should be made for mergers, consolidations, and changes in ownership either before, or subsequent to, federal incorporation and under the supervision of a federal railway board later to be mentioned.

2. After federal charters have been granted, a general corporation should be created for the purpose of giving the agencies of central administration definite legal embodiment, and of making possible the issuance of certain special types of securities by the nationalized railroad system. Such a corporation may, for convenience, be called the United States Railways' Corporation.

3. The executive power should be placed in a board of experienced railway managers, and logically would be best developed out of the existing Railway Executives' Advisory Committee. A practicable organization would be to have the executive board consist of fifteen members, serving five years and chosen by the railroads in elections conducted by the federal railway board. The ballot for each road would be cast by its secretary. The apportionment of representation upon this executive board should be worked out with care, due provision being made for members from short-line systems. This might be accomplished by having one member for about every 17,500 miles of line, and by assigning one vote for every 2,500 miles. A road approximating this mileage would be entitled to a vote. No mileage could be counted twice, and no company or companies comprising a single system would be permitted to split their votes, except when entitled to more than seven votes. In such cases the seven votes would be cast for one man, and those in excess of seven, for another. Shorter roads could secure votes by combining their mileages, but fractional amounts above 2,500 miles

could not be so combined. The fifteen men securing the highest number of votes would be declared elected. Members would be eligible for re-election. With few exceptions, only railroad presidents should be selected for the executive board.

An active executive committee of the board should be composed of five men, one retiring annually. This committee should be chosen by the executive board with the approval of the federal railway board.

4. It would be desirable to have a general finance committee under the executive committee to handle technical questions relating to the marketing of new capital issues. This committee should consist of five members, three of whom should be bankers rather than railroad men, the other two being drawn from the executive board. The members of this committee should be selected by the federal railway board.

The duties would include giving professional advice as to when new securities should be sold and as to the type of those securities, establishing principles of sound finance for the railroads of the country to follow, and bearing a large measure of responsibility for maintaining railroad credit, especially in the matter of the proportion of bonded indebtedness to the equity in the property. The finance committee should consult with the engineers investigating the probable future requirements of commerce and should study the question of making provision for those requirements. The general financial responsibility borne by the executive board of the railways' corporation and the federal railway board would thus devolve in its technical phases upon this finance committee.

5. The functions of the United States Railways' Corporation in addition to the work of the executive board and finance committee may be assigned to four departments, as follows:

a) Department of equipment-supply and terminal operation: One of the chief purposes of a central railway organization would be to provide sufficient equipment for carrying the heaviest volume of traffic that can be foreseen. Under the present system individual roads cannot be expected to take as large a view of the car-supply question as a central agency would take, and owing to a declining scale of rates and to competition between the roads in the invest-

ment market, the companies have not been able, acting separately, to accumulate sufficient car reserves. Cars are to the transportation of commodities what currency is to the transference of values, and just as decentralized responsibility was unable to overcome the difficulties in the way of securing a flexible currency, so it may be reasonably argued that only a central responsibility can overcome the difficulties in the way of securing an adequate reserve car supply.

This reserve supply, then, would be handled by the first department. As pressure of commerce increased, the reserve would be drawn upon and distributed to the points of heavy demand. For a road to have the privilege of drawing upon the car reserve it would be required to keep the amount and the condition of its own equipment up to standard, just as banks must have their loans in good condition if they are to avail themselves of the facilities for credit expansion under the federal reserve system.

A further duty of this department would be to introduce more efficient methods into the current and normal handling of equipment. Great savings may be made where traffic now moves by a long, roundabout route instead of by the short, direct one, and where it is forced through congested terminals instead of being diverted around such points. This will require the adoption of equipment-pooling in some degree. It is believed that the proper basis for just pooling arrangements would be to consider any traffic moving by an uneconomical route as a temporary vested interest of the road now handling that traffic. This vested interest should be recognized by paying the road from which the traffic is diverted a gradually declining percentage of the revenue received on that business over and above the estimated cost of transportation via the new route. The percentage should be a declining one for the reason that no vested interest based upon uneconomic methods ought to be permanent.

Finally, it would devolve upon the first department to operate terminals constructed or taken over by the United States Railways' Corporation.

b) Department of standards and methods: The second department would be responsible for establishing standards and methods

to secure the most efficient railway operation. It would embrace the present associations of yardmasters, master-mechanics, maintenance engineers, car accountants, statisticians, etc. The work of the department could be expanded advantageously by the establishment of central laboratories and experiment plants. In its relation to the operating departments of the various roads customary principles of staff organization would govern.

c) Department of traffic, projection, and safety engineering: The third department would consist of engineers engaged in studying the questions of how to promote more efficient handling of traffic, where new terminals should be built, how existing terminals should be reconstructed, where new lines should be laid out, branch lines extended, and by what methods safety in transportation could be increased. This department therefore should be made up of engineers of the very greatest ability. It should be their whole aim to develop a perfectly co-ordinated national railway system.

d) Department of construction and maintenance: This department would have charge of construction work outlined by the projection engineers, determined upon by the executive board in conjunction with the finance committee, and approved by the federal railway board. It would likewise be the duty of this department to maintain all properties operated by the railways' corporation.

The chiefs and other officers and employees of the four departments would be selected by the executive board and would receive compensation from the railways' corporation.

6. Over this entire organization a federal railway board would have general power of supervision and control. This board would be the agent of the government in bearing the responsibility from the governmental side for the maintenance of railroad credit, for providing for the future needs of commerce, and for developing a scientifically co-ordinated and efficiently operated national railroad system. This board would have the duty of approving all railroad issues, whether of stocks, bonds, or notes, and of eliminating illegal, unsound, and unethical financial practices. Its approval would be required for the building of any new line or terminal, thus eliminating wasteful building of parallel routes and unsystematic terminals.

The executive board of the corporation would be responsible to the federal railway board. The federal board should have the power to attend any executive or departmental meetings and to hold sessions of its own upon any questions which it deemed important. Petitions from sections of the country ill-provided with railroad facilities should be presented to the federal board. Furthermore, as this board would be responsible from the governmental side for maintaining railroad credit, it would be directly concerned with the adequacy of rates. Representations made by it to the Interstate Commerce Commission for rate advances would bear the very greatest weight. The public would feel assured that the rate advance was necessary; the Interstate Commerce Commission would be relieved of investigating the facts as to the general financial requirements of the railroads; and the railroads could be assured of the necessary rate advances before the destructive influence of inadequate earnings should block the channels of trade. Both opportunism as a public policy and irresponsibility as a prerogative of private financial power would be eliminated, and there would be substituted therefor efficient, constructive co-operation between the agents of private and governmental control.

The constitution of the federal railway board should be closely analogous to that of the Federal Reserve Board: it should consist of seven members, of whom six should be appointed by the President with the consent of the Senate, to serve ten years, and should not be residents of the same sections of the country. All should give their entire time to the business of the board and should receive salaries from the government. One of these members should be drawn from the Interstate Commerce Commission, two should be experienced in banking and finance, three should be experienced railroad men, the seventh member should be a governmental official, either the Secretary of Commerce, *ex officio*, or the incumbent of a newly created secretaryship of transportation. This board would in turn appoint the members of the finance committee, conduct the election of the members of the executive board, and approve the appointments to the executive committee of five.

In case of war or threat of war legislation should provide for an extension of the powers of the federal railway board, either upon

the motion of the board itself with the approval of the President or at the direction of the President. These powers should include the actual direction of train movement so far as necessary, and also the right to inaugurate a system of government guaranty of railroad earnings during such time. Since this guaranty would be solely for war purposes, any expenditure by the government thereunder would be a military expense, and hence it should acquire no lien upon the railroad property. The federal railway board would thus become the direct agent of the government for mobilizing the transportation machinery of the country in the national defense. In this connection it may be pointed out that the national banking system was established in time of war and for war purposes, but was designed also to serve the credit needs of the country in times of peace. It is believed that, similarly, the thoroughgoing co-ordination of the railroads, while imperative because of the critical times the nation is passing through, is likewise essential to the work of economic reconstruction after the cessation of war.¹

IV. THE RESERVE OF EQUITY

Creation of new equity in the railroad property is the fundamental requirement for strengthening railroad credit, since new funds for additions and betterments must, under sound financial management, be raised largely upon the basis of proprietary claims to equity in the property.

The organization of a railways' corporation along the lines suggested would strengthen railroad credit by increasing the equity in the property. The very act of aggregating a number of units, each with its own credit, will produce a total credit greater than the sum of the unit credits separately considered. A bank gathers the credit of the community together, buys it in the form of commercial paper, and produces a result greater than the sum of its purchases. Likewise, in the consolidation of industrial or railroad

¹ The emergency of war has called forth a policy of central railroad control which, so far as actual railroad operation is concerned, is similar to the plan presented here. Special attention is therefore directed to the financial machinery suggested in section V for making possible the continuance of co-ordinated management upon the basis of its proven efficiency.

companies, the resulting merger has a credit greater than that of the constituent parts.

In the case of a United States Railways' Corporation this effect would arise from the confidence of the investing public that the organization, with its staff experts, would be able to introduce economies and to bring about the universal application of the soundest principles of finance and the highest standards of maintenance and operation. The prevention of the misuse of railroad credit, the pooling of railroad equipment, its mobilization at the points of greatest demand, the utilization of car shops to rush through equipment repairs, whether upon the property of one road or of another, the routing of freight by the shortest or least congested roads rather than by roundabout lines or through crowded terminals—it is in such direct ways as these that railroad net earnings would be increased even without rate advances, and a central reserve of equity and financing power would be built up. The indirect or cumulative effect would be still more important, for such increased financing power could be drawn upon to strengthen the transportation system at its weakest points, to finance the most needed extensions and improvements, and to inaugurate thereby greater efficiency of operation. Nothing can so increase financial stability as the prudent use of financial resources. This is the broad, constructive, and vital influence that the creation of the United States Railways' Corporation would exert, and it is in this respect that such a plan appears to be superior to the opportunistic method of rate advances, the dangerous experiment of government ownership, or the inadequate plans of government guaranty of earnings and an improved system of governmental rate regulation.

One practical feature alone justifies a careful consideration of the merits of establishing central railroad control, and that is the great benefit that would be derived from the general application of electrical power to transportation. This can be accomplished only if the capital strength of the roads is equal to the task.

V. FINANCIAL MACHINERY

Upon the character of the financial machinery provided would depend the practicability of a plan for establishing a central railway

organization of such a type as to preserve the advantages of separate companies, each stimulated to successful management by the pressure of private interest.

In supplementing the credit of the individual companies by central financing power, the financial responsibility of the separate units must not be sacrificed. This may be accomplished by pooling a part, but not all, of the net earnings of the railroads. Some of the earnings would have to be deposited in a single reservoir so as to make possible the linking of the new financial strength of the central organization with the old financial strength of the existing companies. Securities based upon new or anticipated earnings could thus be issued, identical in their essential character with securities representing present earning power. Only in this way could the newly created equity be utilized in the attraction of capital. But the incentive to the maintenance of efficient organization in the individual roads must be preserved by having the earnings above a certain amount directly controlled by the individual company, and payable (subject to sound principles of finance) to the stockholders of that company.

These two ends—the establishment of central financing power and the continuation of the existing responsible financial units—could be accomplished in the following manner: The average annual dividends paid by each railroad company for a specified number of years past would be determined to establish the basis for dividend payment through the railways' corporation. This average would be altered to conform to special circumstances. If higher dividends than the calculated arithmetical average have been paid by the company in recent years, this fact may be recognized by producing an average in which the dividends for these recent years shall be weighted, provided they have been justified. If a policy of paying small dividends, notwithstanding large earnings, has been followed, such a policy, as hereafter to be shown, would not prejudice the interests of the stockholders. In case the earning power of a company is clearly insufficient to pay the calculated average dividends, an equity readjustment should be made prior to the association of the company with the railways' corporation, reducing the

calculated average of dividends to an amount that could, in accordance with sound finance, actually be paid.

Stock certificates of the United States Railways' Corporation with a par value of one hundred dollars, and certificates of fractional par value as might be necessary, would be issued to the stockholders of the present companies in such amount that each stockholder would receive, upon the declaration of a 6 per cent dividend, his share of the total amount of dividends established for his company by the method outlined. The 6 per cent rate would be known as the "basic-dividend rate"; but the rate of dividends declared at any time would be subject to the decision of the executive board in conjunction with the federal railway board.

The present stockholders of the several companies would be recognized as the owners of the entire equity in the property of their respective companies. New stockholders would be admitted to the privileges possessed by the old. In addition to the certificate of the United States Railways' Corporation, each stockholder would receive an instrument certifying that he held a certain share of the proprietary interest in the property of the present company, and this proprietary certificate would also carry with it the right of voting for the directors and upon other matters in accordance with the by-laws of the individual corporation. These proprietary certificates should be without par value. They would give to the holders the right to receive dividends declared by the directors of the individual corporation out of earnings, in excess of operating and general expenses, taxes, rentals, interest, maintenance and depreciation, surplus requirements, and the amount payable to the United States Railways' Corporation for expenses, dividends, and surplus.

Each of the separate companies would be required to pay to the treasurer of the railways' corporation such an amount as would enable the corporation to meet its expenses and to distribute dividends upon its stock at the rate determined on for the year or quarter. Above such amount the earnings of the individual companies should be divided, 50 per cent being retained by the company itself, and 50 per cent being turned over to the railways'

corporation, until an amount equal to 3 per cent on the United States Railways' Corporation stock (or such other rate as determined by the executive board and federal railway board) had been assigned to the railways' corporation, and the division would then cease. Out of the corporation's share there should first be taken a sum sufficient to make up the deficits for companies not returning the amount required of them. The remainder should not be paid out in dividends, but should be devoted solely to the legitimate uses of a surplus, such as building up contingent liability funds, working capital, or making improvements, additions, and betterments upon the property. The individual companies should similarly be required to build up surpluses before paying extra dividends to their proprietors.

If a company is unable to pay the amount required of it by the railways' corporation, the obligation should be cumulative; that is to say, the deficit would have to be met before any surplus division took place. If after a reasonable length of time such company is unable to pay off its deficit, the holdings of the proprietors of that company in the stock of the railways' corporation should be reduced sufficiently to enable the company to pay out of its earnings the amount required of it by the central corporation, as based upon the reduced stock holdings.

No roads now undergoing reorganization should be admitted to association with the railways' corporation until the work of reorganization should have been completed. After a fair estimate is made of the dividend-paying power of the road, temporary certificates would be given to the stockholders, exchangeable for the United States Railways' Corporation stock as soon as the dividend-paying power is demonstrated. Additional claims upon future earnings could be represented by adjustment stock also exchangeable for the railways' corporation stock progressively as the stable earning power of the road increases.

The railways' corporation should have the right to issue new stock from time to time based upon investment projects which would clearly, under conservative estimate, enable it to earn the dividend rate with proper surplus, or based upon improvements

in methods of operation such as would enable the amounts paid by the individual companies to the central organization to be increased.

There would thus be the following major classes of stock: first, United States Railways' Corporation stock, Class A, based upon existing earning power of the individual companies; secondly, United States Railways' Corporation stock, Class B, based upon anticipated earnings due to the installation of more efficient methods, or the construction of new property, and convertible into Class A stock as its dividend-paying power is proved stable; thirdly, proprietary certificates of the individual companies, entitling the holders to extra dividends when declared by the company after proper provision for surplus and upon approval by the federal railway board. The proprietary certificates would carry the claim to the equity in the property in case of dissolution and would likewise carry the voting right.

It is believed that in this way great flexibility would be provided for in the treatment of the equity of each road. Any decrease would be met by a reduction in the holdings of corporation stock, and any increase, accomplished through conservative management or otherwise, would be reflected in an increase in the value of the proprietary certificates, or company stock.

The funds raised by the United States Railways' Corporation, whether through the accumulation of surplus or through the flotation of new capital issues, would be disbursed in one of three principal ways:

First, directly to existing companies for improvements, extensions, and new equipment. In such instances the funds of the railways' corporation should be used only in case the increased earnings of the individual road by virtue of the improvements would clearly pay a good return upon the capital invested. Any capital requirements above such amount should be provided out of the surplus of the individual company or by means of its own capital issues. With this arrangement the dividends on the increased stock of the general organization would be met through an increase in the contribution of the individual company to the general-earnings account. The improvements would belong to the

road upon which they were made and would be included under mortgages containing "after acquired" clauses.

Second, to subordinate companies, organized for the operation of new terminal projects or line connections. The subsidiary corporation would own the property thus created and would meet its obligations to the railways' corporation out of its share of freight charges on the business handled. Likewise, special payments from railroad companies to which the terminal or line connection was of particular benefit would be justified, and also a general distribution of a part of the burden over the whole transportation system in proportion as the general efficiency and earning power of the whole system might be promoted.

Third, for property to be directly owned by the United States Railways' Corporation. This would be the wisest policy to adopt for the reserve supply of cars, central repair shops, and construction plants. Such property would be under the direction of the first department, and the interest or dividends upon the capital required would be met out of rentals collected from companies using the reserve equipment, and by means of a distribution over all the railroads of a share of the financial burden. Such a measure would be justified by the insurance which the reserve equipment would offer against shortage in time of heavy traffic pressure.

The general advantages of this financial machinery would be: (a) the preservation of the incentive for efficient management on the part of the individual companies, while at the same time empowering the central organization to finance the general requirements of the railroads, considered nationally; (b) the recognition of sound and progressive railroad management by offering a free channel for equity, from whatever source it may arise, to express itself in the value of the proprietary certificates, such certificates drawing dividends in accordance with the company's earnings and the policy of its management; and (c) the development of means for raising capital upon the new credit created through systematic railroad co-ordination.

This would be the logical treatment for the equity in the railroad property. With regard to the creditors' interest, there would be no need for disturbing existing mortgages, except in such cases

of recent occurrence as might prove to have involved fraudulent or unsound transference of value. Other than this, all creditor instruments would remain precisely as at present. The issuance of bonds by the individual companies or by the railways' corporation would follow the usual procedure.

VI. SUMMARY OF ADVANTAGES

The essential principles of a constructive national railroad policy may be stated as follows:

1. The friction, discriminations, and conflicts of authority in the present system of governmental regulation must be eliminated. Governmental control must be simplified, and the requirements that are laid upon the railroads must be uniform and standardized throughout the whole country.

2. Of equal importance is the elimination of friction and conflicts among the railroads themselves. This can be accomplished only by a thoroughgoing co-ordination of the railroads, not only in their terminal and line connections, but also in equipment, operation, and financial management.

3. Another essential element of a national railroad policy is the concentration of managerial ability and responsibility to the public in the same men. This can best be done by placing upon the agents of private ownership a larger measure of authorized public responsibility than they bear at present.

4. Further, any changes that are made must be made strictly upon the basis of the existing organizations. Nationalization may be accomplished without sacrificing in any degree the advantages of private ownership.

5. Finally, flexibility and freedom of action must be preserved in the organization to enable the executive power to meet changing conditions and to adopt constructive measures in providing for the future needs of trade.

The responsible administrative centralization of the railways in the form of a United States Railways' Corporation would embody these principles. Private interest in sound and flexible railway management under the present companies would be preserved, a superorganization for the general direction of the railroads would

be created, and there would be built up a central reserve of railway equity and financing power. This would assist in solving the problem of securing adequate facilities. All the interests of the stockholders and creditors would be safeguarded, the premature building of parallel routes would be rendered impossible, and the rights of communities that have suffered from unsound railroad financing would be recognized as equal to the rights of similarly situated communities that have prospered with the aid of providently managed railroads. The effective correlation of railroad administration would take into account the fact that the railway net is essentially a single system, clearing through the same terminals, drawing upon the same investing public, utilizing the same equipment, and having a claim upon the best methods of operation to raise the standards of efficiency and service. Railroad co-ordination would, above all, protect the right of the public to have in the transportation system a national instrument adequate to the needs of commerce.

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